



Santora CPA Group

Innovation. Solutions. Results.

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August 17, 2005

The Honorable Secretary Nathan Hayward III
Delaware Department of Transportation
778 Bay Road
Dover, DE 19901

Dear Secretary Hayward:

In planning and performing our audit of the financial statements of Delaware Transit Corporation (DTC) for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 17, 2005 on the financial statements of DTC.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management. We will be pleased to discuss in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of DTC. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control structure in accordance with *Government Auditing Standards* and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of DTC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on overall compliance with such provisions.

Current Year Comments

Accounts Payable

Finding

During our audit, we noted that the accounts payable subsidiary ledger was approximately \$50,000 lower than the general ledger balance. The accounts payable subsidiary should be reconciled to the general ledger every month. If an unreconciled difference between the two ledgers is noted, it should be researched and corrected at the point in time it first arises. If unreconciled differences are ignored, it is difficult for DTC to know what the true outstanding liabilities are.

Recommendation

We recommend that the Finance Department research the unreconciled difference and determine whether it is a software/technology issue or whether it is result of items being misposted to the general ledger and any necessary adjustments be made. This should be done as soon as possible.

Management Response

Management has indicated that they are in the process of researching the difference and will make any necessary adjustments as a result of the research. They will also continue to monitor and reconcile the accounts payable subsidiary ledger on a monthly basis.

Update of Prior Year's Comments

Reconciliations

Finding

We noted that certain accounts (in particular, accounts payable SEPTA and insurance loss fund liabilities) were not being reconciled on a consistent and timely basis.

We recommended that the accounts be reconciled consistently and timely as a way to ensure the accuracy of the general ledger balance.

Current Year Status

Through audit work performed, we noted that the accounts payable SEPTA reconciliation process is incorrect. Although this account appears to be reconciled regularly, the payable recorded on the general ledger at month end is inaccurate. We continue to recommend that the overall SEPTA accounts payable reconciliation process be reviewed by management and modified so that the activity accurately depicts the payable to SEPTA at any given point in time.

We also noted that there still is no formal process for reconciliation and review of the insurance loss fund liabilities. We continue to recommend that management implement a formal reconciliation and review process as these liabilities are large and complex in nature.

Leave Accrual Reports

Finding

We noted that the Finance Department had to make numerous manual adjustments to the leave accrual reports generated by PeopleSoft in order to calculate the correct leave accrual balances as of year end.

We recommended that the Finance and HR Departments work together to develop computer-generated leave accrual reports that would reduce the manual manipulation required by the Finance Department.

Current Year Status

Through audit work performed, we noted that the year-end calculation of leave balances was mostly a manual process. We continue to recommend that the Finance and HR Departments explore the idea of creating real-time leave accrual reports that can be generated directly from PeopleSoft.

Internal Auditor

Finding

We recommended that DTC employ an internal auditor as a method of ensuring timely reconciliation of accounts and as a means to relieve management of certain review-related functions. Some of the recommended duties for the internal auditor included the following:

1. Develop a reconciliation process for SEPTA ticket sales.
2. Develop a formal reconciliation process for the various insurance loss fund accounts.
3. Perform random physical inventories at consignment sales locations.
4. Observe SEPTA conductor counts to establish the validity of counts used by SEPTA in their quarterly billings.
5. Perform random reviews of account reconciliations each month to ensure that they are being completed on an accurate and timely basis.
6. Perform random compliance audits of various federal and state programs. This would include Welfare to Work, SCAT, Kent and Sussex County reimbursable expenses, and the 5310 Program.

Current Year Status

An internal auditor has not been added to DTC. Based upon DTC's growing size and complexity of transactions, we continue to recommend that an internal auditor position be created as a means of strengthening DTC's overall internal control.

Staffing

Finding

We observed that DTC was using temporary help in various capacities in the Finance Department.

We recommended that DTC review some of the positions filled by temporary help and evaluate the cost benefit of using such help, bearing in mind that temporary help is generally associated with higher turnover and low continuity in work performance.

Current Year Status

We noted that temporary help is still being utilized due to budget constraints. We continue to recommend that DTC consider replacing temporary staff with appropriate full-time equivalent positions.

Fare Box Revenue

Finding

We noted that DTC contracted with a third party, AT Systems, to pick up, count, and deliver monies received by DTC to the bank. We noted that DTC relied on the counts without performing any procedures to ensure accuracy and integrity of those counts.

We recommended that DTC perform random, unannounced counts of the fare box revenue money before it is picked up by AT Systems. This would verify the validity of the AT Systems' counts that DTC relies on.

Current Year Status

During our audit, we noted that DTC began performing counts on the first of the month, without AT Systems being aware of them, for the purpose of validating the accuracy of the counts performed by AT Systems. DTC indicated that no exceptions were noted during their test counts.

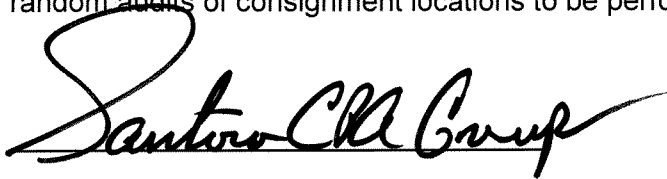
Sales of Stored Value Cards at Consignment Locations

Finding

We noted that monthly reports detailing sales activity of stored valued cards prepared and submitted by certain consignment locations were incorrectly prepared. We recommended that incorrectly prepared reports should be investigated in order to determine that there are no potential misappropriations of stored value cards. Furthermore, we recommended that DTC should perform random audits of consignment locations to ensure that on-hand quantities are accurate with those being reported.

Current Year Status

We noted during the audit that DTC does not perform random audits as of this point in time. We continue to recommend that DTC develop processes and procedures that will provide for random audits of consignment locations to be performed.

A handwritten signature in black ink, appearing to read "Santoro CMA Group". The signature is written in a cursive, flowing style with a large initial 'S' and a long horizontal line extending to the right.